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CURRENT INTELLIGENCE WEEKLY SUMMARY



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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

DE GAULLE AND NORTH AFRICA Page 1

De Gaulle's priority problem is Algeria, where leaders of the insurrectionary junta are making a major effort to induce the new Paris government to espouse their program for Algeria's future. The Moslem nationalist rebels can be expected to continue their fight for the recognition of Algeria's right to independence. The governments of Tunisia and Morocco, hopeful that the De Gaulle regime means improvement in their relations with France, have nevertheless emphatically reiterated that their immediate objective is the evacuation of French troops. [REDACTED]

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FRANCE Page 2

General de Gaulle has been voted authority to rule for six months without Parliament while preparing constitutional reforms to be submitted to a referendum. His foreign policies are still not clear but he appears to be making an effort to reassure France's allies. Domestically, although invested with the solid support of the right, a great majority of the center, and about half of the non-Communist left, he faces difficult political problems, and even more urgent economic issues. [REDACTED]

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LEBANESE DEVELOPMENTS Page 4

Rebel military activity in Lebanon appears to an increasing degree to be a product of UAR inspiration and support, since indigenous dissident leaders have shown some signs of discouragement and now may be more willing than before to compromise. President Chamoun has implicitly abandoned his second-term effort, and the present objectives of the opposition appear to be to install a "neutral" prime minister and to prepare the ground for new parliamentary elections. However, political moves have been held in abeyance pending a UN Security Council debate on Lebanon's complaint against UAR interference. [REDACTED]

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****5 June 1958****PART I (continued)****SINO-SOVIET BLOC DISPUTE WITH YUGOSLAVIA Page 5**

Khrushchev's personal attack on Yugoslav heresies delivered before the Bulgarian Communist party congress on 3 June virtually excludes all possibility of an early reconciliation between Moscow and Belgrade. He upheld the 1948 Cominform resolution expelling Yugoslavia, endorsed in unequivocal language the Chinese Communist "hard line" toward the Yugoslav leaders, and asserted that the bloc is united against Yugoslav "revisionism." His harsh statements increase the pressure on Gomułka to conform to the basic line already espoused by the Soviet press that Yugoslav heresies cannot be tolerated. [REDACTED]

INDONESIA Page 8

[REDACTED]

[REDACTED] In Djakarta, rumors persist of a cabinet change some time in the next few weeks which would drop Hanafi, the pro-Communist minister for manpower mobilization, and perhaps other leftists. [REDACTED]

PART II**NOTES AND COMMENTS****SOVIET DISARMAMENT AND SUMMIT TACTICS Page 1**

Moscow, in agreeing to participate in technical discussions on a control system for the suspension of nuclear tests, has reiterated its willingness to consider installation of inspection posts on Soviet territory. While bloc leaders continue to urge a summit meeting publicly, the USSR still insists on maintaining a veto over the agenda items to be discussed.

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PART II (continued)

KHRUSHCHEV AND COMMUNIST IDEOLOGY Page 1

Khrushchev appears to be showing increased interest in Communist ideology, and Izvestia has identified him personally with doctrinal innovations. This portrayal of him as a theoretician adds to the growing number of fields in which Khrushchev is being depicted as the Soviet Union's leading spokesman. Concomitantly there has been a decrease in the number of references to collective leadership in the party presidium. [REDACTED]

KHRUSHCHEV'S SOVIET-US TRADE PROPOSAL Page 3

Khrushchev's letter to President Eisenhower calling for an official trade agreement and proposing exchanges worth "several billion dollars in the next few years" is intended to demonstrate to the world a "conciliatory" attitude toward the United States and to emphasize Moscow's repeated proposals for discussing international trade at the summit and for holding an international economic conference. The proposals seem primarily politically inspired. [REDACTED]

USSR SEEKS BIDS ON PIPELINE TO BALTIC AND POLAND Page 4

Soviet interest in expanding petroleum exports to the West was again noted in May when the USSR renewed an invitation to a Swedish engineering firm to bid on a major 1,900-mile oil pipeline system from the Urals-Volga oil fields to the Baltic Sea with branch lines to Eastern Europe. Such a system, together with the scheduled construction of refineries and port facilities on the Baltic, would put the USSR in a favorable position to sell its oil in northern Europe. [REDACTED]

LEADERSHIP CHANGES IN RSFSR Page 5

The direction of the Russian Republic Council of Ministers has been transferred to new hands as a result of top-level appointments during the last few months. Four of the new appointees were previously working outside Moscow and bring to their new posts an understanding of conditions in areas away from the center; three are former regional party functionaries. The naming of party careerists to government and industrial administrative posts is a trend associated with Khrushchev which has developed since his industrial reorganization went into effect a year ago. [REDACTED]

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PART II (continued)**SINO-SOVIET BLOC ECONOMIC RELATIONS WITH YUGOSLAVIA . . . Page 7**

The principal economic effect of the five-year suspension of Soviet development credits to Yugoslavia, announced on 27 May and tantamount to cancellation, probably will be the hindrance of long-range planning in Yugoslavia. Belgrade may have to buy or obtain by barter about 1,000,000 tons of wheat it was to have received from the USSR over the next five years to generate local construction funds for an aluminum mill. The bloc, however, now accounts for no more than 25 to 30 percent of Yugoslav trade in any particular item, and Belgrade, while it might be seriously inconvenienced, can find alternate markets to avert any major economic crisis.

[REDACTED]

SOVIET-FINNISH COMMUNIQUE Page 8

The communiqué issued at the conclusion of Finnish President Kekkonen's recent 10-day visit to Moscow reaffirms Soviet acceptance of Finland's neutrality and indicates that the USSR wishes to continue its good relations with the Finns as an example of friendly coexistence between a small and large nation having opposing social systems. The communiqué is broader than those issued in previous years and expresses agreement on subjects of some significance, including Soviet acceptance in principle of a Finnish loan request and specific Finnish endorsement of certain Soviet foreign policy objectives.

[REDACTED]

THE BLOC AND THE WORLD RUBBER MARKET Page 10

The Sino-Soviet bloc imports and consumes only about 15 percent of the world output of natural rubber and by its purchases can only temporarily affect world rubber prices. Careful manipulation of purchases and offers, however, has contributed to the bloc's expanded influence in rubber-producing countries.

[REDACTED]

THE PHILIPPINES Page 11

Philippine President Garcia, who arrives in Washington on 17 June for a state visit, has indicated he will seek at least \$300,000,000 in financial aid to alleviate his country's economic problems. Garcia has done little himself, however, to prevent political and economic deterioration under his administration.

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PART II (continued)

NEPAL'S KING VISITS SOVIET UNION Page 12

King Mahendra of Nepal is now in Moscow on a state visit as part of the most extensive foreign tour yet made by a Nepalese ruler. He will also travel unofficially in Western Europe and Africa. The visit to Moscow is likely to culminate in an agreement for economic aid for Nepal's development program. [REDACTED]

ETHIOPIA'S PRO-WESTERN ORIENTATION MAY BE WEAKENING . . . Page 13

Ethiopia has disagreements with Britain, France, and Italy, and is becoming increasingly dissatisfied with the extent of American aid. Addis Ababa's relations with Yugoslavia and the Soviet bloc have improved during the past year, and officials have hinted that Communist aid offers may be accepted. [REDACTED]

PERUVIAN GOVERNMENT FACES NEW CRISIS Page 13

Increasing agitation for a change of regime in Peru has caused the cabinet to resign and may even force President Prado's resignation. Dissatisfaction among business, banking, landholding, and military groups has been mounting for the past six months and received new impetus from the government's failure to control the rioting on 8 May during Vice President Nixon's visit. [REDACTED]

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PERONISTA AGITATION IN ARGENTINA Page 14

While Argentine President Arturo Frondizi is carrying out his pre-electoral promise of a broad amnesty, he has taken some precautionary steps to discourage extremist reactions by either Peronista or rival military elements. Peronista demonstrations are planned for 6 and 9 June. Prior to the 22 May amnesty law, he decreed an "emergency wage increase" and temporarily reaffirmed the Aramburu regime's ban on Peronista propaganda. The courts have declared that the amnesty does not extend to the treason charges against Peron. [REDACTED]

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PART III

PATTERNS AND PERSPECTIVES

THE ECONOMIC ASPECTS OF FRANCE'S CRISIS Page 1

General de Gaulle is confronted with several pressing economic problems. These include a possible renewal of strike threats for higher wages in the nationalized industries, intensified pressures on the economic stabilization

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PART III (continued)

program, and a growing foreign trade deficit, which at the present rate of increase would lead by autumn to a repetition of the currency and payments crisis of 1957. Emergency measures taken by the Pflimlin government to stop the payments drain have already prejudiced France's ability to meet its commitments to the OEEC and the new six-nation Common Market. [REDACTED]

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SOVIET POLICY TOWARD WEST GERMANY Page 3

Present Soviet policy toward the West German Government has two major objectives, one immediate and one long-range. The immediate aim is to prevent the nuclear rearming of Bonn's armed forces. At the same time, the USSR recognizing West Germany's increasingly important position in Western Europe, is trying to lay the political and economic groundwork to facilitate closer relations and encourage the development of a West German policy more independent of NATO. [REDACTED]

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WEST GERMAN INTEREST IN THE MIDDLE EAST Page 6

West Germany continues to strengthen its economic position and increase its political influence in the Middle East. Bonn has expanded its trade by about 40 percent since 1953 to a figure of \$762,000,000 in 1957, encouraged investments in the area, and set up technical assistance groups, both for commercial advantage and in an effort to prevent the recognition of East Germany by Middle Eastern states. [REDACTED]

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SOVIET INDUSTRIAL SUPPLY SYSTEM Page 8

A major goal of Khrushchev's 1957 reorganization of the Soviet industrial administration was to improve industrial efficiency through changes in the system of supply and marketing which would reduce transport costs and make economies possible by production specialization. While progress in many aspects of the reorganization has been rapid, the important matter of revamping supply relationships has moved slowly. It now appears that further changes will continue to be gradual, reflecting the government's concern over the ill effects of an abrupt change. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

DE GAULLE AND NORTH AFRICA

De Gaulle's priority problem is Algeria, where leaders of the insurrectionary military-civilian junta are making a major effort to induce the new government in effect to align itself with their virtual revolution. Although the general in his 4 June speech in Algiers seemingly endorsed the "integration" line espoused by local leaders, his explicit promise of political equality to Algerian Moslems and his failure to commit himself to "indissoluble" ties between Algeria and France have undoubtedly heightened the existing anxiety of French settlers and the military over his ultimate Algerian policy.

The junta leaders' concern on this score, founded originally on past De Gaulle statements favoring a federal relationship for Algeria, was stimulated by the general's preinvestiture compromises with the condemned "regime of parties" and, particularly, by his inclusion in the new cabinet of former Premier Pflimlin and exclusion so far of anyone--such as Jacques Soustelle--closely associated with the rightist movement in Algeria. Semiofficial French reports that De Gaulle considers himself minister for Algeria are unlikely to alter the situation.

In the likely event that De Gaulle's further policy pronouncements increase the disenchantment of the 1,200,000 resident Europeans in Algeria, extremists among them, who are determined to perpetuate the revolutionary public safety committees, may well organize

new protests. However, the bulk of the army and particularly the local high command, which has recently tightened its control throughout Algeria and is most anxious to regularize its role with legitimate French authority, is believed loyal to De Gaulle and unlikely for the foreseeable future to oppose any of his policies overtly.

Top French military leaders--concerned above all with maintaining the unity of the army--will nevertheless probably be unable entirely to ignore pressure emanating from the influential younger officers who participated in plotting the 13 May action and who share both the revolutionary spirit and the present disappointment of the local civilian extremists. Moreover, the psychological impact of the insurrection on the entire army--especially the three weeks of close fraternization between its personnel and the European Algerians--appears to have been such as to practically exclude the possibility of employing these troops to control extremist-instigated demonstrations designed to "influence" De Gaulle.

The American consul general in Algiers reports that the participation of Moslems in the European-organized rallies hailing the "new French Algeria" is so far still a purely surface development. He does not believe the long-disillusioned Moslems have recently undergone any fundamental change of heart toward France and especially discounts junta claims that they now regard themselves as Frenchmen.

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De Gaulle's personal popularity in North Africa and his 4 June speech may have aroused hopes of a better future among some Moslems, but these have undoubtedly been tempered by fears that even the general may be unable ultimately to prevail over the rightists. The Public Safety Committee's recent public repudiation of Algiers' Mayor Chevallier--a liberal in whom many Moslems have confidence--was certainly not reassuring to the Moslems, who will be further alienated if Chevallier's proffered resignation is accepted.

Despite the immediate "categorical rejection" of De Gaulle's 4 June proposals by spokesmen in Cairo and Tunis for the Moslem rebels of the Algerian National Liberation Front (FLN), FLN leaders were probably somewhat encouraged by the general's vague reference to the future election of representatives with whom Algeria's future would be discussed and by his praise for the "courage" of rebel fighters. However, the FLN can be expected to continue to fight until Algeria's right to ultimate independence is at least implicitly recognized.

Both Tunisian President Bourguiba and Moroccan King Mohammed V have responded cautious-

ly to De Gaulle's notes of 2 June, but probably are guardedly hopeful that his policy toward North Africa will be positive enough for progress to be made in solving their major difficulties with France. The Tunisian press was critical of the tone of the note to Bourguiba, which was notably cooler than that to the King, and also criticized the failure of De Gaulle's statement to specify that the settlement of "present difficulties" would include early French evacuation from Tunisia. The Tunisians apparently believe De Gaulle's principal aim is less to renew talks than to eliminate Anglo-American good offices.

Although the King's response was as cordial in tone as De Gaulle's note, the Moroccan premier's office issued a statement on 3 June explicitly emphasizing that Morocco's goals remain the evacuation of French troops and Algerian independence. The American ambassador in Rabat expects Moroccan policy toward France to harden if De Gaulle accepts the thesis of Algerian "integration." Reaction in both Morocco and Tunisia to De Gaulle's 4 June speech in Algiers was disappointment and skepticism that relations with France could be improved. 25X1

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FRANCE

Although armed with a six-month grant of power to rule without parliamentary obstructionism, General de Gaulle faces difficult and urgent political and economic problems. The general's investiture vote of 329-

224, a smaller margin than he had hoped for, can be explained at least in part by the assembly's jealousy of its prerogatives and by party maneuvering with an eye to future political alignments when De Gaulle finally steps down.

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De Gaulle's Appointments

De Gaulle selected his 15-member cabinet with a view to obtaining as much National Assembly support of his program as possible, particularly on the non-Communist left. He received the solid support of the right, a great majority of the center, and about half the non-Communist left. The Socialists are divided over Guy Mollet's support of De Gaulle, and the split may have permanently ended Mollet's ability to dominate his party. There are only two "Gaullists" in the cabinet.

De Gaulle has named an "inner cabinet" of major party leaders--Socialist Guy Mollet, Popular Republican Pierre Pflimlin, Independent Louis Jacquinot, and the West African leader Felix Houphouet-Boigny--apparently to advise him politically and muster popular support for his policies. The general is acting at least temporarily as his own defense minister, presumably to ensure healing the breach between Paris and the army in Algeria. He has also reappointed General Paul Ely, who resigned in protest over Pflimlin's policies, as chief of staff of the armed forces in a move designed to please the army and possibly, since Ely is firmly pro-NATO, to reassure Western military leaders.

De Gaulle's decision to name Atomic Energy Commissariat Administrator Pierre Guillaumat to a cabinet post--as yet unspecified--probably foreshadows a drive to make France the fourth nuclear power as soon as possible.

Foreign Policy

De Gaulle's foreign policies, unmentioned in his in-

vestiture speech, are still not clear, but he appears to be making a major effort to reassure France's allies, particularly the United States. Couve de Murville, former ambassador to Washington, has been named foreign minister, and Mollet, a stalwart supporter of NATO and European integration, has reportedly been asked to give his attention to foreign affairs, particularly "relations with Anglo-Saxon countries." President Coty's chief civil adviser is now optimistic that France will be a "solid, though probably difficult" ally in NATO. Pinay has stated that De Gaulle, while he realizes he must live with NATO, will insist on a greater French share in NATO planning. Pinay said De Gaulle favors a European community "built around France" rather than one in which France is an equal partner.

Constitutional Reform

The American Embassy in Paris reports a "host of confusing and contradictory information" as to De Gaulle's intentions regarding constitutional reform, but suggests that he may favor a presidential system with a president elected by universal suffrage. Although De Gaulle was subsequently quoted in the press as opposed to a "presidential regime," he has, in any case, long favored strengthening the executive at the expense of the all-powerful assembly. De Gaulle will also probably propose electoral reforms to cut down party fragmentation, which proportional representation encourages. There is also a report suggesting that he is thinking in terms of a general decentralization, with greater powers being granted to the local departmental councils.

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With a mounting economic crisis in France, De Gaulle probably faces a wave of worker demands and strikes for higher wages, which have been held in abeyance pending a settlement of the political crisis. He has attempted to fashion a "bridge" to the non-Communist labor unions via Mollet and by appointing Popular Republican

Paul Bacon, who is close to the Christian Labor Confederation, as minister of labor, but the Communists will continue to encourage strike activity. France's economic problems will also be complicated by the probable renewed demands of the military for funds they lost during Gaillard's economy drive.

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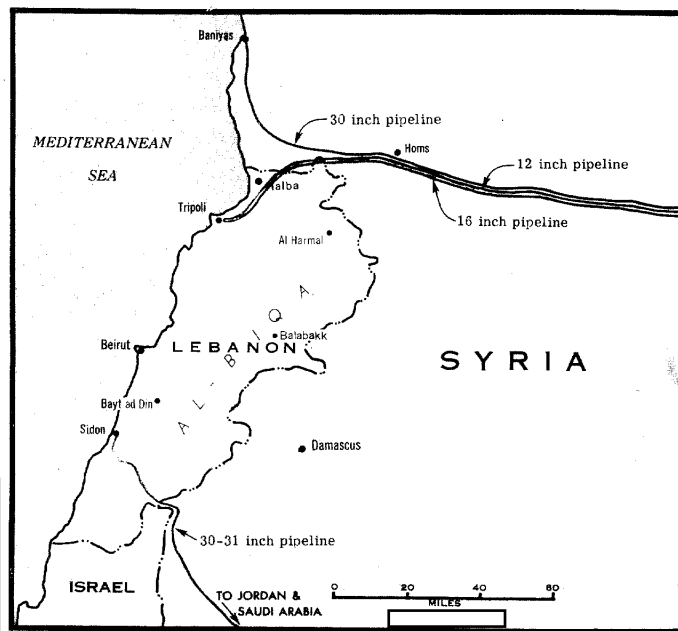
LEBANESE DEVELOPMENTS

Neither the Lebanese Government's security forces nor the opposition's irregulars have been able to achieve a decisive victory in any of the areas of the guerrilla war. Moslem quarters of the larger towns remain closed to the government, and the general strike continues as far as Moslem shops are concerned. A more active rebel effort has been made to close down the oil port of Sidon, the terminus of the American-owned Tapline from Saudi Arabia.

Outside the towns, the Biqa Valley remains the scene of most of the action. With the help of army aircraft, progovernment partisans in the northern part of the valley fended off a major attack early this week by a rebel group which had been heavily reinforced from Syria.

A new lull followed this rebel effort, but Syrian Minister of Interior Sarraj is said to be determined to keep the fighting going and to wish to continue to send reinforcements into Lebanon whether Lebanese opposition leaders like it or not. For this purpose, the

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Syrians have recruited a number of Lebanese nationals who had been working in Kuwait and transported them by air to Damascus, where they are being transformed into rebel partisans. The Lebanese Army estimates the rebels now number 11,000, exclusive of outside reinforcements.

There are indications that rebel leaders may be worried that their growing dependence on UAR support will limit their own freedom of action. Should the opposition forces be unsuccessful in getting a satisfactory political settlement soon, they might be driven to embrace the idea of the predominantly Moslem areas of Lebanon of seceding and joining the UAR.

The American Embassy in Beirut has reported that calls for new parliamentary elections are becoming stronger. However, most moderate leaders oppose such elections on the ground that they would only exacerbate the divisions which the moderates want to heal. Little has been heard this week of the demand that President Chamoun resign immediately. The opposition tactic has been to urge a "neu-

tral" prime minister, who would in fact govern the country while Chamoun was restricted to his "legitimate"--presumably merely ceremonial--sphere of activity. The result of a compromise of this kind would be to place the opposition leaders in charge of the country in a few months rather than immediately, and there are strong indications that this course is being pushed by Cairo.

The presentation to the Arab League Council of the Lebanese complaint of UAR interference was merely a gesture of the traditional kind toward the idea that Arab unity must be preserved. The Lebanese expected nothing to come from it, and the UAR is reported to have persuaded the league secretariat to name Bengazi, Libya, as the scene of the meeting because of the lack of facilities for direct reporting from there. The council on 4 June agreed to send a "fact-finding" commission to Lebanon if the Lebanese withdraw their complaint in the UN Security Council. Even if the Lebanese Government should accept this proposal, it would try to keep a door open for UN action.

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SINO-SOVIET BLOC DISPUTE WITH YUGOSLAVIA**Khrushchev's Endorsement**

Khrushchev's attack on Yugoslav heresies delivered before the Bulgarian party congress on 3 June virtually excludes all possibility of an early reconciliation between Moscow and

Belgrade. He upheld the 1948 Cominform resolution expelling Yugoslavia, endorsed in unequivocal language the Chinese Communist "hard line" toward the Yugoslav leaders, and asserted that the bloc is united against Yugoslav "revisionism."

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His harsh statements increase the pressure on Gomulka to conform to the basic line already espoused by the Soviet press: that Yugoslav heresies cannot be tolerated.

The Soviet premier's address was intended in part to bring unity out of the diversity of bloc commentaries on Yugoslavia, both by extending his own approval to the harsher attacks made by the Chinese and by his establishment of a basic position on Yugoslavia to which such countries as Poland would be expected to conform. Not only has bloc propaganda on Yugoslavia varied in recent weeks, but the Yugoslavs have asserted that Poland and Hungary argued strongly against a "hard line" toward Belgrade during the recent Moscow meetings.

Avoiding vituperation and epithets, Khrushchev devoted his speech to discrediting Yugoslavia in the eyes of the bloc parties by "proving" that Yugoslav policies were ideologically bankrupt. Presumably as a warning to the satellites, particularly Poland, Khrushchev again spelled out the dangers inherent in Communist states accepting Western aid. He emphasized that cooperation on issues of foreign policy was no substitute for ideological conformity as a prerequisite for membership in the "socialist camp." Khrushchev's assertion that, if party relations are impossible, Moscow wants "normal state relations" with Belgrade appears to mean that there will not be a complete breakdown in state relations, but that such manifestations of cordial relations as economic aid and high-level exchanges of visits will cease.

Yugoslav Reaction

Khrushchev's remarks came as no surprise to Belgrade, where he has been regarded as the prime mover behind the anti-Yugoslav campaign. Yugoslavia now will probably abandon its defensive attitude in the dispute. The sharpness of Yugoslav press attacks in the wake of the Soviet decision to "postpone" credits for the second time--a tone not evidenced following the first postponement 14 months ago--indicates that the Tito regime is starting a campaign designed to embarrass the USSR, particularly in its economic relations abroad. Yugoslav representatives in Moscow have advised "neutral" embassies there that Soviet "aid without strings" is a myth and should be accepted only with "open eyes."

Yugoslav charges that Moscow's unilateral cancellation of its economic agreements with Belgrade violates the principle of "higher forms of mutual cooperation" already have received support from influential sections of the Indian press. Belgrade has subsequently notified the USSR that unless the credits are restored, it will be compelled to "claim compensation for losses suffered."

Khrushchev's denial in Sofia that the "struggle for peace" is a common objective that brings the USSR and Yugoslavia together will probably mark the end of the automatic endorsement of Soviet foreign policy by Belgrade. On 2 June Belgrade's Politika, in attacking Moscow's rejection of the Belgrade declaration of 1955, declared that "if the Soviet Union is unable to exist side by side with socialist Yugoslavia--how can it cooperate

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on a lasting basis with countries with different ideologies and radically different social systems?" To date the Yugoslavs have withheld any comment on Moscow's announced troop withdrawals from Eastern Europe and proposed cuts in bloc armed forces--a negative attitude virtually without precedent since the rapprochement with Moscow began in 1955.

Poland's Attitude

The Poles reportedly had regarded Khrushchev's previous silence on Yugoslavia as a hopeful sign that the dispute with Belgrade could be contained. However, his endorsement of the 1948 resolution--a declaration Gomulka has steadfastly refused to recognize as legitimate--swings the official bloc line even further away from Gomulka's.

In view of Khrushchev's declaration at Sofia that deviations in questions of ideology "will not be tolerated" within the camp, pressures for Poland to conform probably will mount. Moscow may not take an extreme position with Warsaw, however, feeling that the internal Polish situation compels it to allow Poland certain liberties it would not permit the other satellites. A high-level Polish Foreign Ministry official declared recently that Poland intends to continue to develop closer economic ties with the Yugoslavs and, where feasible, expand its trade with the West.

Peiping Continues Attack

Peiping's determination to persevere in its anti-Tito polemics was underscored in the first issue of the Chinese party's new theoretical journal, Red Flag, which appeared on 1 June. Red Flag asserts

that "it is impossible to end this struggle here" in view of Belgrade's persistence in challenging orthodox principles.

The Red Flag article is probably a full exposition of Mao Tse-tung's own views, as it is written by his most active eulogizer, politburo alternate Chen Po-ta. It continues the Chinese practice of distinguishing between Yugoslav leaders and the populace and makes the first derogatory comments on internal Yugoslav developments to come from any bloc country in the current dispute.

This sharp tone avoids the balanced cast of Chinese statements in 1956 and early 1957, which were turned against Moscow by certain East European Communists. The Chinese seem especially concerned over the danger that a Titoist infection might spread to other Communist countries and to Poland in particular. The Chinese Red Flag article repeated Soviet criticism of Belgrade for accepting American aid, probably an implied warning to Warsaw.

The Yugoslavs are convinced that the difference in the intensity of Peiping's and Moscow's attacks has no practical significance on the policy level and that they are the victims of a concerted Sino-Soviet attack rather than one initiated by Peiping alone. Peiping's first formal move in the current dispute--its refusal to send an official delegation to the Yugoslav congress--followed Moscow's 5 April letter to Tito announcing a similar decision, although intense Soviet criticism of the Yugoslav leadership did not appear until after that of the Chinese. [REDACTED]

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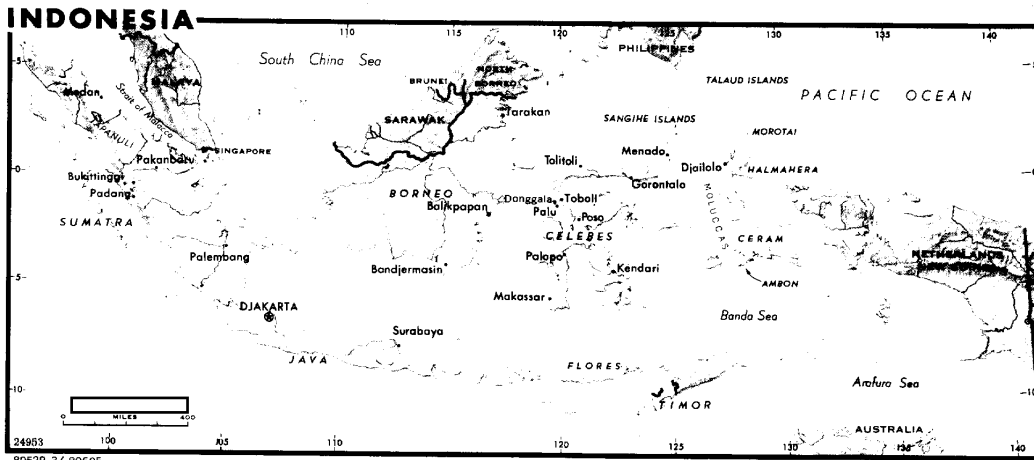
Djakarta announced on 3 June that the harbor city of Tolitoli on the northern coast of Celebes had been cleared of dissident remnants, was controlled by government forces, and that action toward stopping smuggling from that port was under way. On the same day, the government announced that Djailplo on Halmaheira Island had been finally occupied and the 500 dissidents there "destroyed."

The Indonesian Navy has "sealed off" the seas around North Celebes, temporarily forbidding any merchant or fishing vessel to be in the area,

In Djakarta, rumors persist of a cabinet reshuffle within the next few weeks. Most versions agree that Hanafi, the pro-Communist minister for manpower mobilization, will be dropped, perhaps with several other leftists, and that Djuanda will be pressed to remain as prime minister.

The National party's provincial branch in East Java on 3 June denounced the Communists in far stronger terms than the party's central board had done on 27 May. The East Java branch not only reaffirmed the central board's accusation that "a certain group" exploited "every possible opportunity" for agitation, but openly named the Communist party as a traitor to the "goal of revolution," citing Communist rebellion against the Indonesian Government at Madiun, Central Java, in 1948 and a camouflaged minor insurrection in North Sumatra in October 1957.

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The East Java branch further stated that the Communist party's "dissolve SEATO campaign" was an indication that the Communists are the instrument of a foreign power.

The National party is the largest non-Communist party in Java and the largest group represented in the cabinet, and its current attack against the Communists may foreshadow some antileftist moves in Djakarta.

The party's new anti-Communist position, however, is also an acknowledgment that the Nationalists face a battle for survival as a major party in the 1959 general elections. The Communists have replaced the National party in the last two years as the largest party in Java, and the Nationalists have also largely lost the personal backing of President Sukarno.

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PART II

NOTES AND COMMENTS

SOVIET DISARMAMENT AND SUMMIT TACTICS

Moscow, in agreeing to participate in technical discussions on a control system for the suspension of nuclear tests, has reiterated its willingness to consider the installation of inspection posts on Soviet territory. While bloc leaders continue to urge a summit meeting publicly, the USSR still insists on maintaining a veto over the agenda items to be discussed.

Khrushchev's letter of 30 May to President Eisenhower accepted the plan for technical talks and suggested that Poland and Czechoslovakia be included to balance Britain and France and that India and perhaps other nations also be included. In recommending that the experts reach an agreement within four weeks, Khrushchev was reiterating the Soviet claim that the West would use the talks to delay indefinitely negotiations at the summit for an end to tests.

On the same day Khrushchev, in a letter to the Canadian prime minister, emphasized Soviet willingness to discuss in the talks the number of control posts and their specific disposition in the territories of the countries concerned. On the other hand, Khrushchev repeated the standard Soviet argument that such control posts are unnecessary for detecting

any nuclear explosion wherever it occurs. Soviet willingness to hold talks on controls as a preliminary step suggests that the USSR will actually offer a detailed plan for inspection, one which it would be willing to implement.

The Soviet plan will probably fall far short of the elaborate controls that the West considers desirable. If an agreed inspection plan does not emerge from the discussions, Moscow will then probably try to convince world opinion that the West is blocking test suspension by making unreasonable and unrealistic inspection demands. An intensified Soviet propaganda campaign on the ease of detecting nuclear explosions can be expected during the technical talks.

The USSR presumably would like to use its proposed agenda for a summit meeting as the basis for discussion, to incorporate those Western proposals that are closely related, and to exclude the remaining Western topics--particularly Germany and Eastern Europe. The USSR apparently still believes that the discussions should be transferred as soon as possible to the foreign ministers' level, where the issues would receive more publicity, but has not yet found a way to achieve this.

KHRUSHCHEV AND COMMUNIST IDEOLOGY

Khrushchev appears to be showing increased interest in Communist ideology, and Izvestia has identified him personally with doctrinal innovations.

This portrayal of him as a theoretician adds to the growing number of fields in which Khrushchev is being depicted as the Soviet Union's leading

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spokesman. Concomitantly there has been a decrease in the number of references to collective leadership in the party presidium.

On 12 May, Izvestia hailed Khrushchev's plan to sell machine tractor station machinery to the collective farms as a "most important and revolutionary step in the development of socialist agriculture," ranking second in importance only to Lenin's concept of collectivization. The article claimed Khrushchev has shown both machine tractor stations and collective farms to be socialist forms of property and had thereby made a "vital contribution to theory." He has "resolutely refuted" those critics who have advanced the "incorrect and dogmatic view" that the move was a doctrinal step backward because it would strengthen cooperative property (the collective farms) at the expense of socialist property. Izvestia's strong language seems to leave little room for further ideological contention on this issue.

Three days after the Izvestia article was published, Khrushchev's protégé Aleksey Rumyantsev was named chief editor of the new international Communist journal soon to begin publication in Prague. He is one of four former Ukrainian party officials who were appointed to head departments in the Soviet party central committee after Khrushchev's assumption of the party first secretaryship. He became director of the Department of Science and Culture in 1954, and since the fall of 1955 has been editor in chief of the central committee journal

Kommunist. The implications of his new assignment seem clear: what could become the most authoritative mouthpiece of world Communism is headed by an experienced Soviet propagandist whose loyalty to Khrushchev seems certain.

Rumyantsev was succeeded as Kommunist chief editor by F. V. Konstantinov, a well-known ideologist and former boss of the central committee's Department of Propaganda and Agitation (Agitprop) for the union republics. Although he appeared to have been on the wrong side of the Malenkov-Khrushchev controversy over light and heavy industry in late 1954, Konstantinov was named rector of the Soviet Academy of Social Sciences in March 1955, shortly after Malenkov was ousted as premier. He could hardly have succeeded to this post had he been opposed by Khrushchev. By the following autumn, he had become chief of Agitprop.

The Agitprop department for the union republics is now run by Leonid Ilichev. Also a propagandist, he has served at various times as chief editor of Pravda and of Izvestia, and during 1948-49 was deputy chief of Agitprop under Mikhail Suslov. Since 1953, he has been chief of the Foreign Ministry's press department, where he was assigned to replace a henchman of former secret police chief Lavrenty Beria. Unlike Rumyantsev or Konstantinov, however, there is nothing in Ilichev's career to suggest he is more closely tied to Khrushchev than to other members of the party hierarchy.

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Both the Izvestia article and the personnel shifts are obviously advantageous to Khrushchev. He has never displayed a particular interest in ideology, but he may now feel a need

to establish his reputation as a theoretician and to strengthen the ideological basis for the programs and policies which he formulates.

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KHRUSHCHEV'S SOVIET-US TRADE PROPOSAL

Khrushchev's letter to President Eisenhower calling for an official trade agreement and proposing exchanges worth "several billion dollars in the next few years" is intended to demonstrate to the world a "conciliatory" attitude toward the United States and to emphasize Moscow's repeated proposals for discussing international trade at the summit and for holding an international economic conference. The proposals seem primarily politically inspired. However, in the case of certain types of industrial equipment, of which Soviet purchases are potentially very large, American technology is superior to that of other Western countries. This is particularly true in the fields of iron ore concentration and in the construction of large-diameter, long-distance pipelines.

The letter points out that the USSR requires equipment and complete factories--industrial equipment it has recently been shopping for in Western Europe--to increase further its output of consumer goods, including synthetic fibers and plastics. Khrushchev offers immediate orders for refrigeration and air-conditioning equipment; equipment for cellulose, paper, wood-processing, textile, leather footwear, and food industries; television equipment; pumps and compressors; mining machinery,

and transportation and construction equipment.

"Additional big orders could be placed" for equipment for rolling ferrous metals and pipe, chemical products, and consumer goods. The USSR offers to deliver goods of interest to the United States, including manganese and chromium ores, ferrous alloys, platinum, palladium, asbestos, lumber, cellulose and paper products, chemicals, and furs. American imports of such commodities now total about \$2 billion annually; while some of these items had been imported from the USSR prior to 1949, alternative sources of supply, many of which are in underdeveloped countries, have since been established.

In 1956, Soviet-US trade totaled \$28,200,000. Soviet purchases from the United States consisted of \$1,200,000 worth of seed corn, \$1,000,000 in industrial machinery, \$800,000 in agricultural equipment, and \$800,000 worth of miscellaneous commodities. Soviet sales to the United States in that year consisted of \$10,500,000 worth of chemicals, \$7,300,000 in furs, \$3,400,000 in platinum, and \$3,200,000 worth of miscellaneous items.

The Khrushchev trade proposal formalizes propaganda statements emanating from Moscow

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for several months. In press interviews, Khrushchev also has given heavy emphasis to the Sino-Soviet bloc's ability to "liquidate on a healthy basis" the American industrial recession by the purchase of "great volumes" of American goods. He may believe the proposals will excite strong interest in American business circles, as did similar proposals in British industry in 1956, and contrast to the world the alleged weak American economy with the alleged strong Soviet economy.

The USSR presumably would characterize an American refusal to consider the proposals seriously as evidence of unwillingness to ease tensions between the free world countries and the Communist bloc. It is probably aware that any American effort to further US-bloc trade as proposed by the letter could be construed by present American sources of the commodities offered as an effort by the United States to reduce its

internal economic problem at the expense of other free world countries.

The list of plants the USSR purportedly is seeking contains some equipment now subject to COCOM trade controls, and Moscow probably hopes its proposal to the United States will result in a further relaxation of cooperation within COCOM, now reviewing trade control policy in Paris.

Khrushchev's letter also emphasizes that the resumption of trade with the United States in "considerable dimension" would require that Washington make both long- and short-term loans available, since US-supported trade restrictions had created "certain difficulties" for traders which could not be quickly dispelled. This is in direct variance with Khrushchev's statement on 3 June in Sofia warning that all Western credits had ulterior motivation.

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USSR SEEKS BIDS ON PIPELINE TO BALTIC AND POLAND

Soviet interest in expanding petroleum exports to the West was again noted in May when the USSR renewed an invitation to a Swedish engineering firm to bid on a major 1,900-mile oil pipeline system from the Urals-Volga oil fields to the Baltic Sea with branch lines to Eastern Europe. The current Soviet program for building oil and gas pipelines is apparently utilizing the USSR's full capacity for such construction.

In January the USSR announced a plan to build a major oil depot on the Baltic Sea near Klaipeda (Memel), Lithuania. It now appears that the pipeline system up for bids will supply this oil depot, and that this system is in addition to the sizable program of oil and gas pipelines called for in the

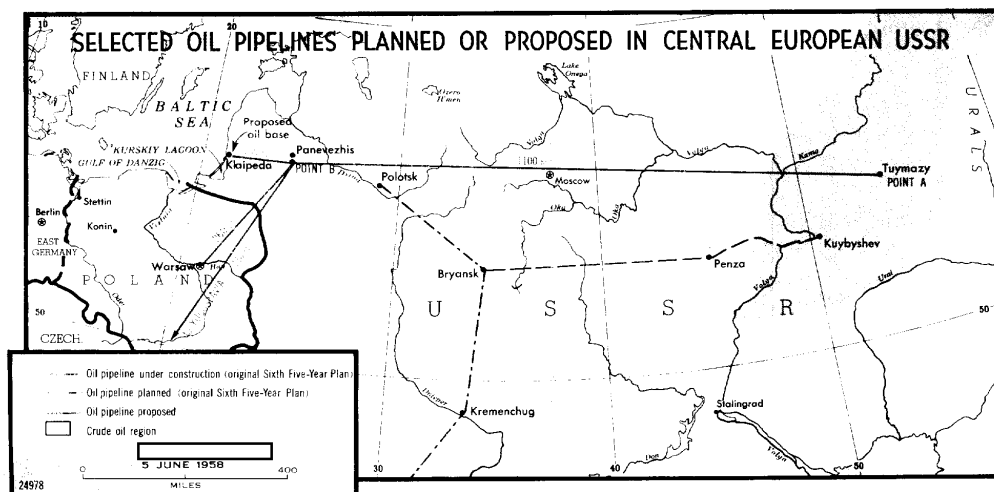
Sixth Five-Year Plan (1956-1960). Subsequent revisions have increased the plan for gas pipelines and decreased that for oil pipelines but have not increased the over-all total, suggesting that the original plan constituted the USSR's maximum capacity for pipeline construction between 1956 and 1960.

The main section of the proposed pipeline is to run from a point referred to in Soviet specifications as Point A, near Tuymazy in the Urals-Volga area, west to a point--called Point B--believed to be near Panevezhis, a distance of about 1,100 miles. This 24-inch pipeline is to have a capacity of 18,000,000 tons per year of gas oil or 9,000,000 of residual fuel oil. For the remaining 135 miles to Memel, the USSR specifies a smaller line

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with a capacity of about one half that of the main pipeline. The capacity of the smaller line could later be increased by one third by additional pumps.

Two additional branch lines from the Panevezhis area are each to have a capacity of 6,000,000 tons of gas oil. One of these is to run 260 miles to Poland. Warsaw, which is the proposed location of a large new refinery, is the probable terminal. The other branch line is described as extending "330 miles" to Yugoslavia. The nearest point in Yugoslavia, however, is over 620 miles from the point near Panevezhis.

The specifications provide not only for the construction of pipelines but also for equipment needed to heat, pump, and store the oil. They call for 470,000 metric tons of steel

pipe alone, and it can be roughly estimated that the cost of the completed pipeline system would be \$300,000,000 to \$350,000,000.

The proposed pipelines and port facilities on the Baltic Sea at Memel and planned refineries would put the USSR in a favorable position to sell its oil in northern Europe. It could probably capture a sufficient share of the expanding market for petroleum in nonbloc northern European countries to operate the proposed pipeline to Memel at its rated capacity of 9,000,000 tons of gas oil per year. In addition, the branch line to Poland would greatly reduce the present transport costs from Black Sea ports.

LEADERSHIP CHANGES IN RSFSR

The direction of the Russian Republic Council of Ministers has been largely transferred to new hands as a result of the appointments during the

last few months of a new chairman, a first deputy chairman who is also head of RSFSR Gosplan, three deputy chairmen, and three ministers of the council. Four

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of the appointees had worked outside Moscow and hence bring to their posts an understanding of post-reorganization conditions in areas away from the center. Three are former regional party functionaries.

The decentralization of the industrial administration last summer, which has resulted in the creation of 58 regional economic councils in the Russian Republic, considerably increased the importance of the RSFSR Council of Ministers in coordinating and controlling industrial production. The designation of Leningrad party boss Frol Kozlov as premier of the republic last December was both a reflection of the enhanced status of this post and a move to bolster the effectiveness of the RSFSR administration.

In late March, at the time of the formation of the new Khrushchev government, Kozlov became a first deputy chairman of the USSR Council of Ministers, and D. S. Polyansky was named to replace him as RSFSR premier. Polyansky, a full member of the party central committee, has had extensive experience as a regional party chief in the Ukraine, Chkalov Oblast, and, most recently, in Krasnodar Kray.

In late February, N. N. Organov and N. A. Dygay replaced V. A. Maslov and K. M. Sokolov as deputy chairmen of the RSFSR Council of Ministers. Organov, who is a member of the party central committee, served successively since 1948 as first secretary of Primorye Kray and Krasnoyarsk Kray. Dygay, a construction engineer, was USSR minister of construction until the ministry was abolished in May 1957, when he became RSFSR minister of construction. He is a candidate member of the party central committee. Dygay's deputy, Mikhail F. Madtocky,

replaced him as RSFSR minister of construction. On 28 March, Vasily M. Ryabikov, a candidate member of the party central committee, was also appointed a deputy chairman of the RSFSR Council of Ministers. Ryabikov was last identified in March 1946 as a deputy minister of armaments.

On 9 May, it was announced that N. K. Baybakov, long a prominent industrial and planning official, had been replaced as RSFSR planning chief by V. N. Novikov, in "connection with his transfer to other work." Press criticism of the operations of RSFSR Gosplan and personal criticism of Baybakov in the 9 May issue of Building Gazette for his handling of investments while minister of the petroleum industry prior to 1955 suggest that he may be in disfavor. The appointment as RSFSR Gosplan head of Novikov, onetime minister of general machine building and most recently chairman of the Leningrad regional economic council, is probably a move to improve the crucial and often criticized Gosplan-sovnarkhoz relationship, since he is intimately familiar with sovnarkhoz operational problems. Aleksandr Damrachev, who replaced Novikov as Leningrad Sovnarkhoz chief, has been appointed an RSFSR minister.

Most recently, on 2 June, A. I. Popov replaced T. M. Zuyeva as RSFSR minister of culture. For the last several years Popov has been a secretary of the Leningrad Oblast party committee with general responsibility for propaganda, educational, and cultural matters.

While each personnel shift has its own rationale, the sum total of the various moves is a refurbishing of the RSFSR governmental leadership by officials who have had recent experience with operational conditions away from the Moscow

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bureaucracy. The naming of party careerists to government and industrial administrative posts is a phenomenon associated with Khrushchev's leadership and is a trend which has developed since his industrial reorganization went into effect a

year ago. The hand of Kozlov, one of Khrushchev's chief aides, is visible in two of the recent appointments: both Novikov and Popov were drawn from Leningrad, where Kozlov was party boss for a number of years.

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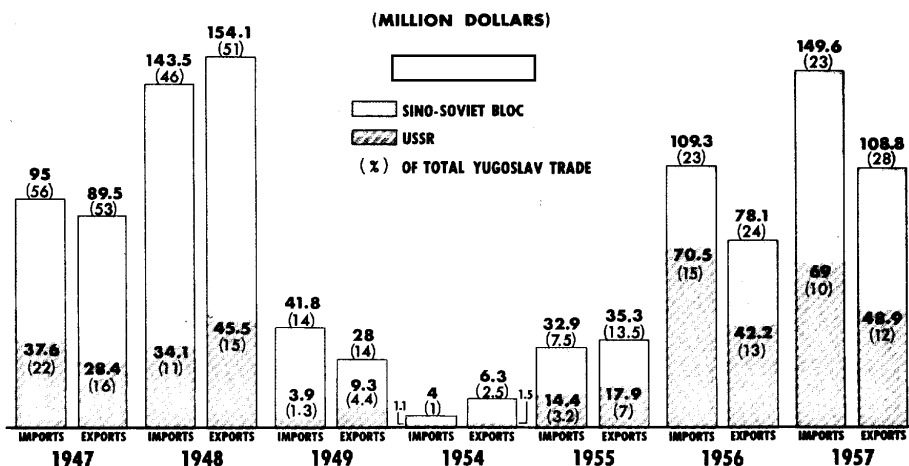
SINO-SOVIET BLOC ECONOMIC RELATIONS WITH YUGOSLAVIA

The principal economic effect of the five-year suspension of Soviet development credits to Yugoslavia, announced on 27 May and tantamount to cancellation, probably will be the hindrance of long-range planning in Yugoslavia. Belgrade may have to buy or obtain by barter about 1,000,000 tons of wheat it was to have received from the USSR over the next five years to generate local construction funds for an aluminum mill. The bloc, however, now accounts for no more than 25-30 percent of Yugoslav trade in any par-

ticular item, and Belgrade, while it might be seriously inconvenienced, can find alternate markets to avert any major economic crisis, such as that of 1948 when the bloc's share of Yugoslavia's trade exceeded 50 percent.

Apparently because of past unfavorable experiences with Soviet bloc credits, Yugoslavia had not yet moved beyond the planning stage in regard to construction under these industrial-development loans, although it had utilized

YUGOSLAV TRADE WITH THE SINO-SOVIET BLOC



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Soviet hard currency and trade loans.

At the time of the Cominform break in 1948, the USSR, Czechoslovakia, and Hungary canceled \$350,000,000 worth of credits out of \$450,000,000 granted Belgrade. In 1956,

up in the ideological dispute. Loans worth about \$95,000,000 from Czechoslovakia and Poland were not affected by that action and presumably are still in force. Of the \$464,000,000, Yugoslavia has thus far used about \$60,000,000.

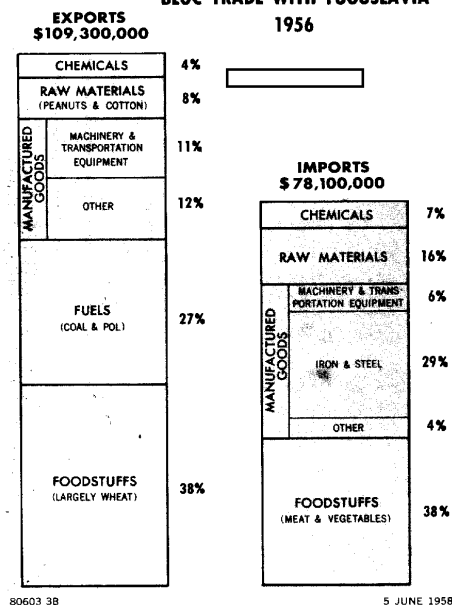
In 1957 the USSR maintained its trade with Yugoslavia at about the 1956 level, but the rest of the Sino-Soviet bloc doubled its trade exchanges with Belgrade. Foodstuffs comprise 50 percent of Soviet sales to Yugoslavia; Soviet wheat deliveries in 1956 constituted one third of Yugoslavia's total imports of that commodity. Fuel, petroleum, and coal--which are available on short notice from other sources--account for 35 percent of total Soviet sales to Yugoslavia and are equal to about half of Yugoslavia's imports of these products.

Nearly one half of Soviet purchases from Yugoslavia are composed of manufactured goods, largely iron and steel, copper, and cement. Consumer goods, including foodstuffs, account for another 20 percent of Soviet purchases. Soviet purchases of each of these commodities are less than 25 percent of Yugoslavia's exports.

Since 1954, when the bloc resumed economic relations with Yugoslavia, Belgrade has avoided any adaptation of its economy to Soviet-directed planning or major

(Prepared by ORR)

COMPOSITION OF SINO-SOVIET BLOC TRADE WITH YUGOSLAVIA



after harmony had been restored, the bloc loaned Yugoslavia \$464,000,000. Under these loans, the USSR last year postponed for several months the Soviet - East German \$175,000,000 credit for a Yugoslav aluminum complex, following a flare-

SOVIET-FINNISH COMMUNIQUE

The communiqué issued on 30 May at the conclusion of Finnish President Kekkonen's 10-day visit to Moscow reaffirms Soviet acceptance of Finland's neutrality and indicates that

the USSR wishes to continue its good relations with the Finns as an example of friendly coexistence between a small and large nation having opposing social systems. The communiqué is

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broadier than those issued in previous years and expresses agreement on subjects of some significance, including specific Finnish endorsement of certain Soviet foreign policy objectives.

The USSR agreed in principle to Finland's request for a low-interest loan of some \$100,000,000 to \$125,000,000 in Soviet equipment to be used for industrial development, and detailed talks will begin after the Finnish Government has made specific proposals for use of the loan.

Early in the visit, Khrushchev dispelled perennial Finnish hopes for the return of a part of Soviet-held Karelia when he made clear that the Finns should expect no concessions on territorial revisions. In a speech on 24 May, he said that borders are "irrevocable" unless changed by wars and that Finland must accept the status quo. The USSR offered, however, to grant Finland 50-year transit rights on that portion of the Saimaa Canal which crosses Soviet territory and to lease Finland sites for port facilities near Vyborg. President Kekkonen, who had hoped for territorial gains, had been under some pressure to negotiate regarding the canal and, apparently motivated by the desire for possible domestic political benefits, agreed to the compromise lease.

The final decision on the loan and the canal rests with the Finnish Parliament, where considerable skepticism on both matters exists. The possibility that Soviet technicians would accompany the equipment, the enormous expense that would be involved in reopening the canal, and doubt as to the economic benefits to be derived will influence the Parliament's decision.

According to the communiqué, negotiations will take place on over-all Finnish-Soviet trade levels for the period 1961-65. The USSR now accounts for almost 19 percent of Finland's total foreign trade, and this announcement suggests a mutual assurance that the present level of trade will continue over the next several years. The present Soviet aim appears to be to maintain its close economic ties with Finland and to dissuade the Finnish Government from moving toward closer cooperation with Western economic integration plans, rather than to increase Soviet-Finnish trade. Recent Finnish interest in OEEC and in increasing trade with Western European nations has aroused Soviet suspicions.

The communiqué's expressions of Soviet-Finnish friendship were more profuse than in previous declarations but were balanced by an emphasis on Finnish neutrality and independence. Included were joint statements on disarmament, nuclear-test cessation, support of Chinese Communist UN membership, and endorsement of the Rapacki Plan. While consistent with Finnish statements in other contexts, such statements constitute a divergence from past declarations, which have avoided specific endorsement of Soviet foreign policy objectives, and are hardly consistent with Finland's policy of "staying outside the conflicts of the great powers," as expressed in the communiqué.

According to the Finnish counselor in Moscow, the USSR pressed hard for some mention of the Baltic "sea of peace" in the communiqué but met with blunt Finnish refusal.

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THE BLOC AND THE WORLD RUBBER MARKET

The Sino-Soviet bloc's requirements for natural rubber are relatively small, but by careful manipulation of purchases and offers, the bloc has been able to expand its influence in rubber-producing countries. As it has imported and consumed only about 15 percent of the world output of natural rubber, however, the bloc's purchases have had little more than a temporary effect on world rubber prices.

Before 1953 most of the bloc's requirements were obtained through regular trade channels--from brokers in the rubber centers of Singapore, Amsterdam, and London. From mid-1953 to mid-1955, the USSR, the major bloc consumer, bought no natural rubber, permitting China to make purchases for Soviet needs not met by withdrawals from domestic stockpiles, in an attempt to break the UN embargo on rubber trade with Communist China. From 1953 to 1957 Communist China, with the support of the bloc, purchased at least half the Ceylonese production and paid \$38,000,000 in premiums. This, together with credits and a cultural offensive, has given the bloc a position of considerable influence in Ceylon.

Since 1955, when it resumed purchases, the USSR has bought less and less in London and has been increasing its direct purchases from the rubber-producing countries. As part of its economic-political drive in Indonesia, the bloc can be expected to participate to a larger extent in Indonesia's rubber market by direct purchases.

After the UN embargo was lifted in 1956, Peiping began hinting that countries accommodating its offensive in Southeast Asia could sell China large quantities of rubber at high prices. Hopes for huge profits from rubber sales to China were encouraged in Malaya in 1957, just before that country attained its independence. China actually bought only 30,000 tons of rubber, but made its purchases shortly before the first elections were held in the country. Purchases since that time have been small.

China's total imports in 1956 and 1957 were about 100,000 tons more than its needs. Probably the bulk of the excess was shipped to other bloc countries in payment for goods and services received.

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SINO-SOVIET BLOC RUBBER IMPORTS AND SOURCES OF SUPPLY

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1955**1956****1957**

	MALAYA	INDONESIA	CEYLON	LONDON (RE-EXPORT)	UNREPORTED	TOTAL	MALAYA	INDONESIA	CEYLON	LONDON (RE-EXPORT)	UNREPORTED	TOTAL	MALAYA	INDONESIA	CEYLON	LONDON (RE-EXPORT)	UNREPORTED	TOTAL
USSR				24,400		24,400	12,791			95,833	17,976	126,600	14,982	11,047		51,471		77,500
CHINA			32,349		17,651	50,000	8,707	1,372	54,686		23,635	88,400	31,367	35,852	46,281			113,500
EUROPEAN SATELLITES	13,500	5,023	335	87	40,824	59,769	30,617	17,858	27	424	31,809	80,735	19,328	1,636	536	565	49,810	71,875
TOTAL	13,500	5,023	32,684	24,487	58,475	134,169	52,115	19,230	54,713	96,257	73,420	295,735	65,677	48,535	46,817	52,036	49,810	262,875
TOTAL PRODUCTION	639,128	733,786	93,830	39,349		TOTAL WORLD 1,897,500	627,400	686,667	95,389	111,463		TOTAL WORLD 1,887,500	638,706	684,515	98,164	70,516		TOTAL WORLD 1,825,000
PERCENT IMPORTED BY BLOC	2.11	6.84	34.83	62.23	43.58	7.07	8.31	2.80	57.36	86.36		15.67	10.28	7.09	47.79	73.79		14.4

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THE PHILIPPINES

Philippine President Garcia, who arrives in Washington on 17 June for a state visit, has publicly emphasized that the primary purpose of his trip is to seek substantial aid to alleviate his country's economic difficulties. Garcia apparently hopes a successful mission will eliminate the need



GARCIA

for stern measures to stem the political and economic drift which has set in since he took office.

In his preoccupation with consolidating his political hold on government machinery, Garcia has been hesitant or unable to exert constructive leadership. He has been heavily criticized, even by his own Nacionalista party colleagues, and widespread allegations of official corruption have tended to undermine his prestige.

The congressional session ending 22 May failed to enact many of Garcia's major legislative proposals, rejecting even his proposed budget as too inflationary. A special session

summoned on 26 May seems likely to accomplish little more than approve a reduced budget and a public works bill.

The government's progressive relaxation of austerity measures imposed in December to curb a serious decline in foreign exchange reserves casts doubt on Garcia's willingness to enforce strict controls in the face of pressures of special interest groups. With a greater than usual rice shortage this year and a mounting inflationary threat, fears have arisen that increasing unrest in rural areas may eventually lead to a revival of Communist influence.

Failure of the Philippine Government to undertake measures to remedy the situation--such as carefully controlled peso devaluation or an end to deficit spending--suggests that Garcia may be tolerating the drift in order to bolster his case for American aid. He has talked in terms of a development loan reportedly ranging from \$300,000,000 to \$482,000,000.

If Garcia feels his appeals are not adequately rewarded, he may in the future blame the United States for the Philippines' economic straits. He may also retaliate on such issues as the resumption of negotiations over American bases by supporting the views of extremists such as Justice Secretary Barrera or Senator Recto. Although there is at present little genuine anti-Americanism in the Philippines, frustrations over American failure to meet Philippine demands could give an increasingly anti-American flavor to the country's growing nationalism.

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NEPAL'S KING VISITS SOVIET UNION

King Mahendra of Nepal is now in Moscow on a state visit as part of the most extensive foreign tour yet made by a Nepalese ruler. He will also travel unofficially in Western Europe and Africa. The visit to Moscow is likely to culminate in an agreement for economic aid for Nepal's development program.

Mahendra arrived in Moscow on 4 June. The USSR has made several generalized offers of aid since 1956, and the Soviet ambassador to India and Nepal restated in February that his country was prepared to assist Nepal's development if requested. To date Nepalese authorities have either rejected or not acted on Soviet offers. Sources in Katmandu expect that Mahendra's state visit will result in acceptance of "substantial" aid. The King, however, is regarded as alert to the dangers of Communist subversion and may not accept assistance which is accompanied by technicians.

Nepal's increasingly poor economic condition will make it

difficult for Mahendra to resist all offers though, particularly if made in the form of a gift or cash grant along lines of the "no strings" economic aid extended by Communist China in 1956. He may be urged, for example, to accept Soviet civil aircraft on very favorable terms for use on Nepal's new domestic airline, for which five Soviet planes already are said to have been offered.

Before flying to Moscow in a Soviet jet airliner, the King visited New Delhi and consulted with Prime Minister Nehru. The Indian leader, who is acutely sensitive to any threat to India's primary interest in Nepal, probably cautioned Mahendra against close involvement with Moscow.

The royal powers will be exercised in Nepal by a special council headed by the King's younger brother, Prince Himalaya, until Mahendra returns in late August. This group will supervise the activities of the cabinet formed by the King in May. The cabinet is composed of six rival political leaders and may be hamstrung during Mahendra's absence by conflicting interests.

The King's last act before departing was to give final approval to electoral laws based on the Indian model, thus clearing the way for Nepal's first national democratic elections. There is no assurance, however, that conditions in the country will permit the elections to be held as scheduled. [REDACTED]

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ETHIOPIA'S PRO-WESTERN ORIENTATION MAY BE WEAKENING

Ethiopia has disagreements with Britain, France, and Italy and is becoming increasingly dissatisfied with the extent of American aid. Addis Ababa's relations with the Soviet bloc, Yugoslavia, and India have improved during the past year, and officials have hinted that Communist aid offers may be accepted.

Ethiopia states that American aid furnished under the military assistance pact of 1953 has been too small in quantity, obsolete in type, and slow in delivery. This dissatisfaction has recently become acute as a result of the strengthening of the Egyptian and Communist position in Yemen. The Emperor, particularly concerned over Ethiopia's lack of an adequate air force, has pressed Washington for jet aircraft, overlooking the drain a modern air force would impose on his country's economy, the technical difficulties of operating jets there, and the serious training problems.

The United States agreed in mid-March to furnish Ethiopia with some air force aid. The Ethiopian foreign minister, however, in late May termed inadequate American plans to supply some jet trainers and C-47 transports during the first phase of the program. He added that the final decision rests with the

Emperor, who might take up a Communist offer if American aid is unsatisfactory.

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During the past year, the Soviet bloc, Yugoslavia, and India have improved their positions in Ethiopia. Bulgaria and Czechoslovakia have received economic concessions; Yugoslavia and India have obtained important commercial concessions.

Ethiopia's relations with several anti-Communist nations, on the other hand, are strained at the present time. Addis Ababa disagrees with London over Somali policies and civil air rights, with Paris on control of the Franco-Ethiopian railroad and its coastal terminus at Djibouti, and with Rome because of Italy's role as past conqueror and present guardian of Somalia.

Ethiopia's problem was recently summed up by a top official in Eritrea when, commenting on a Czech offer to build a cement plant, he acknowledged the political danger of bringing the Soviet bloc in on both shores of the Red Sea, but added, "we must live." (Continued in by ORR)

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PERUVIAN GOVERNMENT FACES NEW CRISIS

Increasing agitation for a change of government in Peru has caused the cabinet to resign and may force President Prado's resignation. Dissatisfaction among business, banking, landholding, and military groups has been mounting for the past

six months and received new impetus from the government's failure to control the rioting on 8 May during Vice President Nixon's visit.

The appointment of Vice President Gallo Porras as chief

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of cabinet on 2 June marked the first change in this post since the constitutional Prado government replaced the dictatorship of General Odria in July 1956. Gallo is a successful businessman and an opportunistic but conservative politician.

Reports that Gallo is to select the new cabinet indicate he will play a stronger role than his predecessor. Gallo may later replace Manuel Prado in the presidency since key members of the powerful Prado family are reported considering the abandonment of the presidency on the ground that this course would be better for the family's large holdings in Peru than having Prado ousted.

The military are now likely to insist on greatly increased influence. The war minister, who favors a stronger government, stated on 12 May that he is holding a tentative military cabinet in reserve. The military probably want to maintain a semblance of constitutional and civilian government, however, both because hemisphere public opinion is important to them and because the mass-

supported leftist but non-Communist APRA party, indebted to Prado for its legal status, is avowedly ready to oppose a change of regime "vigorously."

Ineffective anti-Communist action has contributed to present unrest. The government jailed the secretary general of the Communist party and other Communists following the riots on 8 May, but the secretary general has now been judged innocent and released. Another high-ranking Communist was reportedly never arrested because of his ties with the former cabinet chief. In addition, government weakness has permitted the Communists to foment serious labor difficulties.

Economic deterioration contributes to the dissatisfaction of powerful groups with the Prado regime. Peru has in recent years had one of the most stable economies in Latin America, but lower world prices for the primary commodities which are its main exports have led to balance-of-payments difficulties and domestic inflation.

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PERONISTA AGITATION IN ARGENTINA

While Argentine President Arturo Frondizi is carrying out his pre-electoral promise of a broad amnesty, he has taken a few precautionary steps to discourage extremist reactions by either Peronista or rival military elements, in view of anticipated Peronista agitation, such as the demonstrations planned for 6 and 9 June. Prior to the 22 May amnesty law, he decreed an "emergency wage increase" and temporarily reaffirmed the Aramburu regime's

ban on Peronista propaganda. The courts have declared that the amnesty does not extend to the treason charges against Peron.

The most vocal--though not necessarily the strongest--Peronista groups have been concentrating their propaganda on agitation for Peron's return and reportedly have scheduled demonstrations for 6 and 9 June which could lead to rioting. The so-called "62-bloc" of

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neo-Peronista and pro-Communist unions have scheduled a politically inspired rally in front of the executive offices on 6 June "to hail the liberator, Juan Peron," and to protest the previous government's treatment of the remains of Eva Peron.

Another Peronista demonstration is reportedly scheduled for 9 June to commemorate the anniversary of the abortive 1956 revolt. Although an advocate of free political activity, Frondizi probably extended the Aramburu regime's ban on Peronista propaganda with a view to controlling demonstrations on politically important dates near at hand, including 16 June, the anniversary of the unsuccessful revolt preceding Peron's downfall.

Frondizi is probably also concerned with avoiding calling

on military elements to maintain order, since there exists a minority element strongly dissatisfied with his election. The war minister canceled the military club's annual elections on 30 May to cool off partisanship along political lines among the military.

Since Congress passed an amnesty law on 22 May forgiving political and military crimes or common crimes for political or labor reasons, many prominent Peronistas have been released from jail and have returned from exile. From the Dominican Republic, Peron has called the law a "trap," since it does not apply to the charges of treason outstanding against him, but he says he will return "when the people call him."

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PART III

PATTERNS AND PERSPECTIVES

THE ECONOMIC ASPECTS OF FRANCE'S CRISIS

General de Gaulle, as new French premier, is confronted with several pressing economic problems. These include a possible renewal of strike threats for higher wages in the nationalized industries, intensified pressures on the economic stabilization program, and a growing foreign trade deficit, which at the present rate of increase would lead by autumn to a repetition of the currency and payments crisis of 1957.

Levels of industrial production and employment still continue high, although there are indications that the general economic slackening in the West may hit France before long. For the present, inflation remains the paramount threat to the French economy. Failure to hold the wage-price line now would be particularly serious, since it would further weaken France's ability to compete in export markets and would intensify an already excessive domestic demand for imports, thus aggravating the foreign trade deficit.

Labor Demands

An all-out strike for wage increases by workers in the coal mines and other nationalized industries was averted on 21 April only because of the absence of a government to serve as its target. Although consumer prices as a whole were by April leveling off after equal rises with wages of about 11 percent since the August devaluation, workers in the nationalized industries had two strong talking points: first, wages in private industry were currently rising about 2 percent a month while they had been asked to accept a freeze; second, food prices had risen twice as much as consumer prices general-

ly. Union spokesmen charged the government with making them bear the whole burden of the national fight against inflation, and they suspended their demands only for the duration of the political crisis. Communist labor leaders will be particularly eager to press wage demands against a De Gaulle government.

The Gaillard and Pflimlin governments, on the other hand, were determined to resist this and other demands for increases in wages because France had recently committed itself internationally to an economic stabilization program, one provision of which limited increases in real wages to 3.5 percent during all of 1958.

Stabilization Program

The stabilization program, which France submitted as a basis for negotiating the February \$655,000,000 emergency joint credit from the International Monetary Fund (IMF), the European Payments Union (EPU), and the United States Government, stipulates specific retrenchment goals designed to redress France's international financial position by curbing the inflationary boom, curtailing government expenditures, and reducing the foreign payments deficit. Experts of the EPU charged with reviewing progress of the program found early in May that the French Government was generally fulfilling its commitments but expressed concern on several points. They were disturbed that the payments deficit was mounting alarmingly, internal inflationary pressures continued, and the currently strong treasury position was threatened by mounting expenditures for Algeria.

Payments Deficit

France's failure to attain the central objective of reducing

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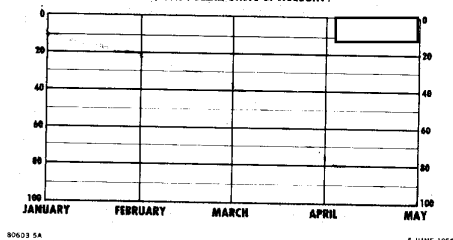
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its payments deficit resulted in several emergency measures in the last two weeks in May. There was actually some improvement during the first two months of 1958, as France gained \$59,000,000 in foreign exchange. But a serious deterioration began in March as

FRANCE: EPU BALANCE-OF-PAYMENTS DEFICIT, 1958
(MILLION DOLLAR-UNITS-OF-ACCOUNT)



imports rose in response to expanded demand for industrial raw materials and exports declined with recession-reduced demand. The three months ending 31 May showed a cumulative loss of \$160,000,000 in foreign exchange.

Deficits in the EPU mounted progressively from less than 25,000,000 dollar units of account in January and February to 80,000,000 in April and 100,000,000 in May, approaching the crisis levels of mid-1957. This renewed drain reduced hard currency holdings to only a little over \$100,000,000 above the last-ditch \$575,000,000 reserve in the Bank of France. Meanwhile, France drew about one half of the \$381,300,000 credit available from the EPU and IMF at a rate which, if continued, would by autumn exhaust funds available from the entire credit. The remaining \$274,000,000 of the emergency credit, from the United States, was in fact a suspension of scheduled payments from France to the United States.

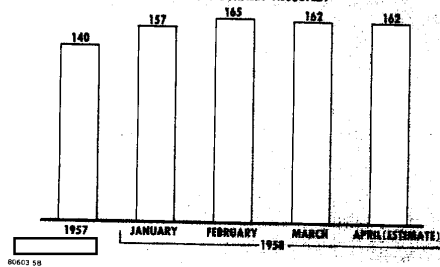
Even in the midst of its political crisis France has had to take emergency measures

to stem the payments drain. Steps taken since 20 May include suspension of French tourist allowances, calculated to save \$75,000,000, and a declaration of intention to cut imports the equivalent of \$238,000,000 in foreign exchange during the second half of the year. On 29 May, issue of import licenses was suspended for two or three weeks to arrange implementation of the import curtailment.

Other Retrenchment Objectives

Although the Gaillard government's stabilization program set out deliberately to curb the boom and limit growth of gross national product during 1958 to 1.5 percent in real terms, compared with 6.5 percent in 1957, industrial production has expanded in 1958 in response to excess demand. Latest information indicates that in April it was still near the peak of 11 percent above corresponding 1957 levels, although there had been a very slight decline since February. The French Finance Ministry reports industrialists are anticipating an early leveling off; the steel industry al-

FRENCH INDUSTRIAL PRODUCTION
1952=100 (SEASONALLY ADJUSTED)



ready intends to cut back production by early fall as declining export demand is enabling it to catch up on the domestic backlog.

If wage demands in the nationalized industries are granted, costs may be increased, thus necessitating either price

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increases--which are to be restrained under the stabilization program--or larger government subsidies to these industries--which would adversely affect the treasury's position. As a result of high revenue yields from expanding business activity, the treasury's position is now exceptionally favorable, having shown a slight surplus at the beginning of May for the first time in four years. This surplus, however, is seriously threatened by rising costs for the military effort in Algeria. The armed services have already increased their demands nearly one third above the outlays contemplated in the stabilization plan.

International Commitments

De Gaulle has announced he will honor France's existing

international obligations. The economic developments of the past few weeks, however, have already prejudiced his government's ability to carry out this promise. Arrangements at the end of May to cut imports further clearly indicate that France will be unable to live up to its commitment to the OEEC-EPU to remove restrictions on 60 percent of imports which it restricted during the financial crisis last year. Furthermore, Finance Ministry officials have indicated strong doubt that France will be able to carry out with its partners the 10-percent reduction in tariffs scheduled to take place inside the Common Market on 1 January 1959. There is widespread concern among responsible officials over the implications of such a failure on the entire future of European integration. [redacted]

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SOVIET POLICY TOWARD WEST GERMANY

Present Soviet policy toward the West German Government has two major objectives, one immediate and one long-range. The immediate aim is to prevent the nuclear rearming of Bonn's armed forces. At the same time, the USSR, recognizing West Germany's increasingly important position in Western Europe, is trying to lay a political and economic groundwork to facilitate closer relations and encourage the development of a West German policy more independent of NATO. Both of these aims were behind First Deputy Premier Mikoyan's three-day visit to West Germany at the end of April.

Nuclear Rearmament

In its effort to prevent the 25 March Bundestag decision

to equip West German forces with nuclear weapons, the USSR sought to exploit opposition within the governing Christian Democratic party (CDU) to Adenauer's unwillingness to consider alternative avenues to reunification and his insistence on forcing a quick Bundestag decision. With this in mind, the USSR proposed on 28 February that a German "peace treaty" rather than "reunification" be discussed at a summit conference.

This idea had been broached by Bundestag President Gerstenmaier during Chancellor Adenauer's prolonged vacation in February. [redacted]

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[redacted] Gerstenmaier also endorsed

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Defense Minister Strauss' suggestion that the Rapacki Plan for a nuclear-free zone in Europe be modified to include a link to German reunification, and told the Bundestag that a "constructive elaboration" of the plan was feasible. This suggestion did not interest the USSR, however, because it was conditional on German reunification.

This rigid attitude toward reunification has also hindered the efforts of Soviet diplomats to generate interest in a peace treaty and convince German opposition leaders of the greater flexibility of Soviet policy. Soviet Ambassador Smirnov assured Social Democratic leader Ollenhauer that the USSR was not seeking to conclude separate peace treaties with West Germany and East Germany but was proposing a peace treaty discussion with the Western powers during which reunification itself might be discussed. Moscow, however, released to the press the text of an aide-memoire proposing negotiation of a peace treaty, contrary to its agreement with Bonn, and passed a text to leaders of the opposition Free Democratic party. This was an obvious gesture to assure its use against the government in the Bundestag foreign policy debate.

Despite these Soviet maneuvers, Adenauer was able to rally his forces during the debate. The principle of nuclear armament for the military forces was accepted, and the Soviet schemes for a peace treaty and negotiations between the two German states were rejected. However, evidences of a strong negative public reaction to the decision encouraged continued Soviet efforts to discredit the 25 March resolution. Public opinion polls showed that some 80 percent of those questioned in West Germany were in favor of keeping the country free of nuclear weapons. The

Russians recognized this as a highly effective political issue which could be exploited at no cost to Soviet policy or security.

Mikoyan Visit

Moscow had for a long time sought an opportunity to send one of its highest ranking officials on a state visit to Bonn. Soon after its decision to send Mikoyan had been announced--contrary to Adenauer's preference for Foreign Minister Gromyko--the first deputy premier appeared uninvited at a German Embassy reception in Moscow, where his attitude was described as cordial, "far beyond what would have been appropriate," setting the stage for the visit.

While Mikoyan in Bonn reiterated the long-term Soviet "hard line" toward West German unification, he promised immunity against Soviet atomic attack if West Germany were free of nuclear and missile weapons. Apart from its appeal to West German sentiment, the offer fits into a larger pattern of Soviet strategy calculated to exploit the political impact of Soviet technological achievements. Moscow hopes by this means to persuade the allies of the United States that the threat of American retaliatory capacity, on which they had formerly relied as a shield to deter Communist aggression, is no longer effective. The USSR believes this line will not only achieve greater acceptance of its offers of peaceful co-existence, nonaggression pacts, and an atom-free zone, but will also prompt many non-Communist governments to reappraise the advantages of close alignment with and dependence on the United States.

Moscow is confident that it can exploit growing concern, particularly in Western Europe, over the danger of becoming involved in a nuclear war to encourage tendencies toward neutralism and disengagement. It

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believes its assurance of immunity for countries which abandon alliances with the United States and nuclear weapons in favor of neutral policies will hasten these trends.

Disarmament

Although Mikoyan's statements apparently had little impact in West Germany, the USSR may be able to exploit the Bonn government's stand on nuclear armament and disarmament. Both in public statements and in conversations with Mikoyan, Adenauer emphasized that disarmament was the priority topic for summit consideration, and subordinated the German unification issue while stressing that a disarmament agreement would make German atomic armament unnecessary. This stand weakens the opposition's case against nuclear armament. His statements, however, must have been interpreted by Moscow not only as a signal that the Western bargaining position on unification as a summit topic was weakened, but as an indication that Adenauer believed he lacked strong political support at home for his stand on atomic armament.

Domestic considerations made it imperative for Adenauer to be somewhat ambiguous in stating what degree of progress toward disarmament would make the atomic armament of Germany unnecessary. This fact may give the opposition new opportunities for exploiting Soviet disarmament overtures as the fulfillment of the prerequisites for abandoning German atomic armament. Thus, for example, a limited disarmament agreement, such as the elimination of nuclear weapons tests, would have a strong impact on West German opinion. The opposition's chances for delaying or preventing nuclear armament depend largely on making decisive gains in the several state elections scheduled for 1958, thereby raising doubts in the govern-

ment about implementing the policy.

The Soviet bloc can be expected to maintain a heavy propaganda campaign on the issue. Khrushchev in his speech to the political consultative committee of the Warsaw Pact on 24 May warned that the pact countries might be "forced by circumstances to examine the question" of arming East Germany, Poland, and Czechoslovakia with missiles if missile bases are set up in Western Europe.

Soviet policy is too rigid, however, to make possible any offer of unification as bait to prevent atomic armament. The Soviet-endorsed East German scheme for a confederation is too loose and vague to form any real compromise approach to unification. The Soviet proposal that a German peace treaty be discussed at the summit is not a serious negotiating offer but a tactical device to prevent the German issue from becoming an obstacle to a summit meeting by providing the West with an agenda topic under which it can state the case for unification.

Long-range Aim

Although the collateral talks between Bonn officials and Mikoyan tended to overshadow the signing ceremonies themselves, the importance of the trade and consular agreements reached must not be overlooked. This was the first major agreement reached by the two states since September 1955, when Chancellor Adenauer visited Moscow and agreed to the re-establishment of diplomatic relations. Moscow considers the agreements only a first step toward an ever closer relationship.

Moscow is fully cognizant of the growing West German political and economic influence in Western Europe, which helps to prevent Communist gains in

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Europe by lessening the possibility of political fragmentation or economic depression. Moreover, a strong West Germany closely aligned with its NATO neighbors would be in the long run a potential threat to Soviet hegemony in Eastern Europe. Recognizing its inability to curtail directly West German economic expansion, the Soviet Union can only hope to orient that expansion toward Eastern markets.

A West Germany which is increasing its economic ties with the Soviet bloc might be less dangerous from Moscow's point

of view because it might be more amenable to influence on questions of policy.

This does not mean that Moscow has in any way abandoned its hope for a militarily neutral West Germany. It probably does not, however, expect that this objective can be obtained as long as the Adenauer government is in power. Meanwhile, it must be satisfied with a relatively slow improvement in relations with West Germany, particularly in trade, while it seeks to improve contacts with the opposition parties in Bonn.

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WEST GERMAN INTEREST IN THE MIDDLE EAST

West Germany continues to strengthen its economic position and increase its political influence in the Middle East. Bonn has expanded its trade, encouraged investments in the area, and set up technical assistance groups, both for commercial advantages and in an effort to prevent the recognition of East Germany by Middle Eastern states. At the same time, Bonn has shown an interest in joining a multilateral Western effort to bolster the Turkish economy as a counterweight to Soviet influence in the Middle East.

Diplomatic Activity

Bonn apparently sees in the Middle East a bulwark against neutralist recognition of East Germany and, to further this primary political aim in the area, has adopted an attitude of aloofness toward internal Middle Eastern conflicts. West Germany feels that if the UAR or other Middle Eastern

states establish relations with East Germany, this would start a chain reaction in Africa and Asia. The Adenauer government has steadfastly refused to extend de jure recognition to Israel, and the recent economic agreement with the UAR was motivated by strong political considerations. Bonn's policy of neutrality in the area, however, is creating some difficulties. Turkey, for example, was irritated by Bonn's obvious support of the UAR.

Bonn may encounter further difficulties as its economic position is strengthened and its political influence is increased. While Bonn professes no desire to take advantage of the post-Suez decline in French and British influence, it has already established itself as the leading Western European exporter to Egypt, and is in an increasingly favorable commercial position in Iran and Iraq. Some Bonn officials probably foresee West Germany as a bridge between the

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Arab bloc and NATO. A West German diplomat has expressed the opinion that Bonn is in an advantageous position to work through Nasir to re-establish Western prestige in the area.

Trade

Since 1953, West German trade with the Middle East has increased about 40 percent, reaching a total of \$763,000,000 in 1957, or about 5 percent of Germany's world trade. Bonn's interest in the Middle East as a potential market for German goods is reflected in the 67-percent rise in exports to the area since 1953, totaling \$425,500,000 last year. Iran in 1957 replaced Turkey as West Germany's leading trade partner in the Middle East, with trade amounting in \$116,000,000. This was largely the result of internal Turkish financial difficulties, which Bonn hopes to alleviate with multilateral aid programs through OEEC or the International Monetary Fund. Chancellor Adenauer, after Turkish President Bayar's visit to Bonn in May, suggested a joint US-German aid program to help Turkey over its immediate financial difficulties until OEEC can make a firm offer.

In 1956, West Germany replaced Britain as Europe's leading trade partner with Egypt. The credit agreement signed with the United Arab Republic on 7 May is further evidence of Bonn's desire to maintain its favorable position. In extending credits of about \$95,000,000 for the purchase of capital goods in Germany, Bonn hopes not only to expand future trade with the UAR, but also to redirect the UAR's trade away from East Germany. East German imports from

Syria and Egypt rose from \$4,600,000 in the first half of 1956 to \$10,400,000 in the first six months of 1957. West German trade with Egypt last year totaled \$89,900,000, while trade with Syria dropped from \$31,600,000 in 1956 to \$27,000,000 in 1957, largely a decline in Bonn's imports. West German firms have ceased buying Egyptian cotton in Cairo, but buy cotton allegedly dumped in Amsterdam by the USSR at a much lower price.

West Germany during 1957 sent goods valued at \$66,000,000 to Israel, 20 percent of Israel's annual imports. West Germany has now supplied 40 percent of the goods and services contracted for under the 1952 restitution agreement, according to which Germany agreed to pay claims of \$882,000,000 over a 12-year period.

WEST GERMAN TRADE WITH THE MIDDLE EAST
(MILLION DOLLARS)

	1953		1956		1957	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
EGYPT	25.3	54.4	25.8	63.3	26.4	63.5
SYRIA	9.8	11.5	12.2	19.4	8.3	18.7
IRAN	24.4	26.4	28.1	52.8	39.1	77.1
SAUDI ARABIA	46.4	3.2	73.9	15.5	64.9	22.2
TURKEY	77.8	102.0	67.1	93.3	48.9	63.6
ISRAEL	36.2	13.8	5.7	65.3	8.3	66.0
IRAQ	36.2	8.9	61.6	26.4	40.4	29.8
LEBANON	.8	14.9	2.9	20.9	4.1	24.7
OTHER	6.4	19.3	81.4	39.4	97.3	59.9
TOTAL	263.3	254.4	358.7	396.3	337.7	425.5

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Investment Projects

West German businessmen continue to strengthen their foothold in the Middle East through investment programs designed largely to develop future markets in the area. The recent West German - UAR agreement provided the basic framework for future negotiations for increased German investments and technical aid. West

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German firms believe they will be offered contracts previously scheduled for the USSR or Czechoslovakia under this agreement.

German geological survey teams have been engaged in extensive tours of the Middle East during the past year to determine the feasibility of exploiting natural resources. They are especially interested in coal, chromite, and petroleum resources in Iran and other mining projects in Jordan.

The German telecommunications firm, Siemens, now has a contract to provide Iran with telephone equipment, and the federal postal service has sent German engineers to train Iranian technicians in their use. Siemens has offered Iran a \$12,-000,000 eight-year loan for the purchase of additional telecommunications equipment.

Bonn is favorably considering increased aid to Jordan's economic development program as a result of a recent trip of representatives of the German Federation of Industry. The delegation concluded that the best opportunities for German investment firms in Jordan were in water development projects, both urban and rural, including technical training in the use of agricultural machinery and irrigation methods.

Technical Missions

West Germany has been sending an increasing number of advisers to the Middle East, particularly in the industrial and technical fields. As part of the UAR agreement, Bonn will send economic experts, mineralogists, geologists, and harbor and airport planners to the UAR. West Germany has established and supplied German instructors for schools of cultural studies in the Middle East which it finances wholly or in part. The German trade school in Cairo will fill a serious Egyptian need for well-trained technicians and craftsmen. In view of the increased interest by West German industry in the Middle East, a group of seven German regional banks has recently established a joint agency in Beirut for the purpose of expanding contacts with the banks' foreign business partners and offering advice to their customers on business plans and trips.

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SOVIET INDUSTRIAL SUPPLY SYSTEM

A major goal of Khrushchev's 1957 reorganization of the Soviet industrial administration was to improve industrial efficiency through changes in the system of supply and marketing which would reduce transport

costs and make economies possible by production specialization. While progress in many aspects of the reorganization has been rapid, the important matter of revamping supply relationships has moved slowly. It now

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appears that further changes will continue to be gradual, reflecting the government's concern over the ill effects of an abrupt change.

Soviet preoccupation with economic growth poses critical problems in the field of supply. As the economy strains to attain the maximum increase in industrial output, production in one or another branch inevitably outstrips or lags behind the needs of related branches, and supply bottlenecks develop. Meager inventories throughout the Soviet economy intensify these supply problems. In Western "market" economies, bottlenecks tend to be reduced, except in wartime or boom, by more or less "automatic" adjustments through operation of the price system. In the USSR, however, planning of material supply is the central problem confronting the "current" planners, just as investment or developmental planning is the major task for the "perspective" or long-run planners.

While recent changes may have modified the extent to which higher economic organs intervene in detail in the supply matters assigned to subordinate organs, supply planning and control appear to remain highly centralized, with little basic alteration of existing supply categories.

Responsibility for planning and controlling a smooth, balanced flow of goods from processor to processor or consumer is assigned different echelons in the Soviet economic hierarchy according to the scope and importance of the particular item of supply. "Funded commodities," especially important items of economy-wide significance such as certain types of steel, are released for use only by action of the USSR Council of Ministers.

Distribution of "centrally planned commodities," goods or

materials also of broad significance, such as certain types of cast iron, transformers, and machinery, is governed by USSR Gosplan, the State Planning Committee.

"Decentralized commodities" are the responsibility of the planning organs of the regional sovnarkhozy or councils of national economy--items of predominantly local economic significance such as ground chalk, quartz, or silica sand. Routine supply flows are specified in a section of the economic plans as these are prepared by the responsible planners.

Supply Under Ministerial System

Material supply practices which evolved under the now-abolished ministries bore the stamp of the regime's overriding demands for increases in output. Under the system of "progressive norms," producing enterprises were assigned higher and higher output targets year after year, but were allocated relatively fewer supplies. There was scarcely any cushion of supplies or raw materials, and, more important, there was no effective way to shift responsibility for production shortcomings to laggard suppliers who might be at fault.

Industrial managers were forced ultimately to rely on their own resources, performing with their own facilities as many successive stages of production as possible in order to assure themselves of tight control over closely scheduled operations. Subcontracting was generally avoided and plants tended to produce not only their own subcomponents such as engines, motors, and nuts and bolts, but also in many instances production machinery and tools. This limited the realization of economies which specialization in production might otherwise have permitted.

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Besides this so-called "vertical integration" of industry, the ministerial system tended to foster supply flows without adequate consideration of transport costs. Often disregarding transport costs and other locational factors, officials preferred to develop "reliable" supply sources within their own ministries, where those responsible for any disruptions could be effectively brought to book. For example, according to a charge of the USSR Minister of Railways, "the USSR Ministry of Ferrous Metallurgy shipped roofing iron from its enterprise in the Urals to Leningrad for the needs of its Leningrad enterprises, while the Russian Republic Ministry of Local Industry shipped out roughly the same quantities of roofing iron from its plant in Leningrad to all parts of the republic."

Khrushchev, in his speeches promoting the reorganization, blamed such "narrow departmental barriers" directly for Soviet failure to achieve the desired levels of specialization in industrial production as well as for the tendency to crosshaul, which was becoming an increasing problem in Soviet transport.

Reorganization Proposals

"The main thing in the improvement of material and technical supply," Khrushchev contended in his 30 March 1957 thesis on industrial reorganization, "is to develop direct contractual relations between consumer enterprises and supplier enterprises as the most expedient and economically advantageous form of material supply and marketing." He reiterated that "contracts for the delivery of materials should provide for strict material responsibility for the fulfillment of the terms of delivery by dates, quantity, and quality of output."

To avoid disruption of supply during the period of reor-

ganization, however, Khrushchev considered it "evidently expedient to preserve for a time a number of organizations engaged in marketing output until new regular ties . . . are formed" and "to preserve the existing interoblast relations as regards the supply and marketing of output." Therefore, the supply and marketing organs of those industrial ministries which were abolished, and of some ministries which were retained, were "temporarily" consolidated into 17 specialized supply departments and placed under USSR Gosplan. As dictated by particular republic needs, supply departments were also set up in the various republic gosplans to handle supply matters for their republics. At the local level, consolidated marketing and supply organs--almost a "general store" for the industry under each sov-narkhoz--were proposed.

The retention of detailed control over important supply flows by Gosplan served to forestall interruptions and possible autarkic tendencies to favor local interests above all-union interests. But supply control by USSR Gosplan over a broad list of centrally planned commodities also tended to hamper the formation of just those new, direct, interenterprise contractual relations that were supposed to curtail "irrational transport" and encourage industrial specialization.

Some reported instances of "localist tendencies" must be considered simply as attempts by local officials to "improve" unilaterally and prematurely the outmoded and criticized ministerial supply channels; these actions serve, however, to frustrate the central supply planners in their task of preventing disruptions during the reorganization.

Subsequent Supply Developments

Soviet reports of industrial performance under the sovnarkhoz

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system thus far indicate that disruption in supply was successfully avoided through the interim "freeze" of existing supply relationships. Local officials persistently pressed for greater autonomy in deciding supply matters, however, alleging that the freeze fostered the very bureaucratism the reorganization had set out to correct. These officials were sharply critical of the red tape they encountered in clearing

sions on supply matters may have been taken much earlier.

Neither the imminence nor the direction of changes in the supply setup received significant Soviet publicity. In fact, the Soviet press continued to carry criticisms and proposals on the supply question from low-level personalities, without a hint that remedial measures were already in process.

Even after important decisions about industrial supply matters had been made, the regime was in no hurry to announce them. Thus the 24 April decree of the Presidium of the USSR Supreme Soviet which threatened disciplinary measures against those officials who "without valid excuse" fail to fulfill delivery assignments for "all-union needs" was not revealed until 19 May. The decree was clearly an attempt, however formalistic, to strengthen contractual obligations and "strict material responsibility."

The Pravda announcement of 19 May that union republics and regional sovnarkhozy had been assigned "full responsibility for implementation" of industrial supply plans and tasks--an assertion by the regime that the supply question was, for the moment, "settled"--does not drastically alter existing supply policy and displays a continuing conservatism and caution in revamping the supply setup. In effect it makes less "temporary" the present interim supply system while at the same time it levies on subordinate organs a greater responsibility for industrial supply. Its failure to specify any new grants of authority and its emphasis on "responsibility for implementation" suggest a probable reluctance by the regime, for fear of supply disruptions, to grant matching authority all at once to subordinate organs.

MARKETING DIRECTORATES ATTACHED TO RSFSR GOSPLAN

Coal
Ferrous Metallurgy
Nonferrous Metallurgy
Scrap Ferrous Metals*
Scrap Nonferrous Metals*
Petroleum
Chemicals
Construction Materials
Electrotechnical
Machine Tools
Machine Building
Heavy Machine Building
Automobiles and Tractors
Bearings
Instruments and Automation
Equipment
Foodstuffs*
Light Industry*
Textiles*

*Directorates attached to USSR Gosplan are believed similar but probably omit or combine those marked with an asterisk.

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supply proposals and plans with the USSR and republic gosplan organs. Nevertheless, the freeze remained in effect into early 1958. Soviet desire to avoid supply disruption seems to have dominated later supply policy decisions.

In March, American Embassy officials in Moscow were told by several Soviet academic economists that enterprises and sovnarkhozy would have their responsibility for supply matters broadened. Basic deci-

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